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C O N F I D E N T I A L SECTION 01 OF 02 VILNIUS 000065

SIPDIS

STATE FOR EUR/NB AND INR/B

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TAGS: [PGOV](#) [PREL](#) [ECON](#) [EINV](#) [ENRG](#) [ECIN](#) [LH](#)

SUBJECT: LITHUANIA'S ECONOMY MINISTER SEEKS TO ATTRACT U.S.
INVESTMENT, DIVERSIFY OIL SUPPLY

REF: A. VILNIUS 57

[¶](#)B. 2004 VILNIUS 1099

Classified By: POL/ECON OFFICER TREVOR BOYD
FOR REASONS 1.4 (B) AND (D)

[¶](#)1. (C) Summary. Economy Minister and Labor Party Chairman Viktor Uspaskich, meeting with Ambassador Mull on January 18, stressed his commitment to attracting U.S. investment, improve the competitiveness of Lithuanian companies, and to work with the EU to help Lithuania diversify its oil supply and achieve a greater degree of energy independence from Russia. The Ambassador offered his assistance to attract more U.S. foreign direct investment to Lithuania. Uspaskich confirmed his participation at the March 4 Baltic Trade and Investment Conference in Washington. His interest in attracting foreign investment matches USG and U.S. business interests, and we will work closely with the Minister to improve Lithuania's commercial and investment climate. End Summary.

[¶](#)2. (C) Ambassador Mull met with Viktor Uspaskich, recently confirmed Economy Minister, January 18 as part of his get-acquainted tour of Lithuania's new Cabinet (ref a). Uspaskich discussed the electoral success of, and discipline within, his Labor Party, efforts to attract U.S. investment, and Lithuania's energy sector.

Labor Party: Down to the Business of Governing

[¶](#)3. (C) Uspaskich outlined for the Ambassador the Labor Party's initial foray into the business of governing, remarking that "despite all the stereotypes," the Labor Party is committed to delivering on its campaign promises. Uspaskich emphasized the importance of party discipline to enable the Labor Party to realize its strategic vision for Lithuania. He added that he had learned the lesson of party discipline during a 1998 visit to Republican Party headquarters in Washington. In response to the Ambassador's observations of the celerity of the Labor Party's rise to power, Uspaskich claimed that his party continues to grow, noting the influx of technical specialists to the already broad base of support for his party.

Attracting Investment to Lithuania

[¶](#)4. (C) Ambassador Mull underscored his commitment to attracting U.S. investment to Lithuania. He mentioned the Baltic Trade and Investment Mission held last month in London, attracting over 180 U.S. companies. Uspaskich confirmed his intention to participate in a March 4 follow-up conference in Washington, and accepted the Ambassador's suggestion to meet with senior USG trade officials. Uspaskich said he is dedicated to attracting investment to Lithuania.

[¶](#)5. (C) Ambassador Mull discussed several barriers to U.S. investment in Lithuania, raising in particular the need to reform the tax code and expedite residency permits. Recognizing that these matters do not fall under the purview of the MOE, he asked Uspaskich, in his role as both Economy Minister and Chairman of the Labor Party, to engage with his colleagues in government on these barriers to economic growth. The Ambassador also highlighted bilateral cooperation in innovation policy, science and technology, and training assistance. Uspaskich welcomed the Ambassador's offer of assistance, particularly in competition law, noting that one of his highest priorities is to improve Lithuania's competitiveness in both the European and U.S. markets. He noted, however, that it would take more than improving the laws and educating the technocrats to accomplish his goals for the economy. One of the challenges, he said, is to educate Lithuania's populace about the benefits of a free market economy.

[¶](#)6. (C) Noting the relationship between education and business, Uspaskich outlined plans to invest some of his personal fortune in developing a business school in Kedainiai.

The Ambassador pointed out the importance of also being able to offer educational opportunities to the families of foreign investors, and called upon Uspaskich to help resolve the Lithuanian's Social Security Agency's tax claims against the American International School in Vilnius.

Energy Policy: Seeking Independence from Russia

17. (C) The Ambassador acknowledged that ensuring energy supplies would be one of the Minister's most difficult challenges. He asked Uspaskich to outline Lithuania's energy policy. Uspaskich said he "cannot be very diplomatic on this issue," and that he would act in the best interests of the Lithuanian people when dealing with Russian oil suppliers. "I have no positive sentiments for Yukos or the government of Russia," Uspaskich said. His priority, he said, is to ensure that Lithuania acquires controlling interest in the Mazeikiu Nafta refinery, since the company is an important strategic asset that contributes substantial tax revenues to the national budget. He added that Lithuanian control of the refinery would most efficiently be executed through a private company. Uspaskich foresees no long-term supply difficulties should Yukos eventually stop the flow of crude to Mazeikiu Nafta. Though it would likely cost more, Uspaskich said that Lithuania could refine oil from other suppliers in Europe or Venezuela.

18. (C) Uspaskich said that Lithuania's long-term energy stability is tied to Europe, appreciating the irony that Lithuania is now more dependent on Russia because of the EU's insistence that the GOL close the Ignalina nuclear power plant. He outlined the EU's plans to develop electricity bridges between Tallinn and Helsinki, Lithuania and Sweden, and Poland and Lithuania. Uspaskich said that though Lithuania will strive for cooperative relations with all its neighbors, it will increasingly become engaged with the EU on energy issues.

19. (C) Comment. Uspaskich's expansive discourse on the political situation indicates that, despite his new job, he remains focused on consolidating his party's position of strength within the governing coalition. As we have noted in previous meetings (ref b), he is also trying very hard to tell us what he thinks we want to hear. His enthusiastic acceptance of the invitation to travel to Washington, his recounting of his earlier foray to Republican headquarters, and his hiring last week of the Embassy's excellent economic FSN, who accompanied him to the meeting, suggest to us that he wants us to think well of him. If he follows through on his promises to make Lithuania a better place for U.S. businesses to invest, we will.

MULL